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DEPARTMENT OF STATE
BRIEFING MEMORANDUM

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INSTRUCTIONS APPLY

TO: The Secretary

FROM: EB - Joseph A. Greenwald

July
Monthly ReportProtectionism in an Election Year

It is a truism in the trade area that standing still is not an equilibrium position; either we move forward or we will be pushed back. At the present moment, the balance is tilting backward. While we are inching forward in the multilateral trade negotiations in Geneva, the pressures to push us back at home are strong.

Petitions to restrict imports will be decided this year in cases that involve more than \$10 billion of trade and affect our principal trading partners in Europe and Japan, and important developing countries, Brazil, Korea, Taiwan among them.

Trade quarrels can be bloody. Some cases in the past involving import restrictions, such as bicycles, carpets, glass, and cheese, and the notorious chicken war, were poisonous to our foreign relations. Even when at long last these cases were terminated, a residue of bitterness has remained.

The cases awaiting decision this year involve major domestic industries like steel, as well as traditionally weak and sensitive industries like shoes. How these cases are decided can affect not only the tone of our relations with the countries concerned, but also, in the case of Europe and Japan, their cooperativeness in the Multilateral Trade Negotiations and their continued observance of the OECD trade pledge. Pressures for protection are no less strong abroad than here and U.S. weakness in the face of these pressures will make it harder for others to resist. In the case of the developing countries, adverse decisions can dull the luster of the Seventh Special Session and give aid and comfort to the radicals in the North/South dialogue.

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Experience in 1975

The experience last year was favorable notwithstanding the great concern of our trading partners. The number of petitions to restrain imports under the various provisions of the Trade Act -- escape clause, countervailing duty, anti-dumping, unfair trade practices -- led our partners to believe that the long awaited Trade Act was simply a vehicle for protection. In fact, of thirty-four countervailing duty cases decided in 1975, duties were imposed in only four, and the imposition of duties was temporarily waived in six, most importantly in the cheese and ham cases against the European Community. The U.S. International Trade Commission in its first three decisions on petitions for relief from increased imports found no injury to U.S. industry as a result of imports. And only one anti-dumping case was decided adversely, Polish golf carts, and that only after extensive discussions with the Poles which moderated their unhappiness.

In short, the U.S. performance in 1975 demonstrated the ability of the Administration to exercise its powers under the Trade Act reasonably.

Favorable Factors in 1976

The upturn in the U.S. economy appears to be broad-based and sturdy. With the prospect -- and the fact -- of increasing sales in the domestic market, U.S. firms will be less impelled to hit out against imports. We can expect the number of new complaints which U.S. industry will file under various provisions of the Trade Act to be lower this year than last.

Moreover, the trade surplus of 1975 -- in excess of \$11 billion -- was the largest in our history and attributable to our competitive strength in manufacturing as well as to our good performance in agricultural trade. With the recovery of the U.S. economy, imports will increase and the trade surplus diminish, of course, but the price position of U.S. manufacturers compared to their major competitors is much more favorable

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now than in past years. The greatly improved competitive position of U.S. producers of manufactures should make the U.S. market less vulnerable to import pressures in the upturn.

Furthermore, the trade surplus in 1976, while less than in 1975, should still be substantial. Psychologically, a large trade surplus is important for business and labor confidence. The declining trade surplus in the late 1960s and the traumatic trade deficit in the early '70s -- first in this century -- led to widespread defections of labor and business leaders from the cause of free trade and swelled the clamor for permanent import quotas and "orderly" marketing arrangements.

The fact that the Multilateral Trade Negotiations are in progress may also be a plus. It can be argued that protectionist action would hurt the negotiations. In addition, it gives us a forum for consultation and resolution of especially difficult cases -- steel may be such a case.

We also have going for us the commitment of the President at Rambouillet. In talking to the other Heads of State about domestic pressures for import restraint, he said, "Where flexibility exists under domestic law and procedures, I am prepared to exercise it". In the same context he said, "We should agree to resort to limited emergency trade measures only in particularly acute or unusual circumstances". These commitments by the President should strengthen the State Department's hand in interagency negotiations and give added weight to foreign policy considerations.

1976 - An Election Year

This is, however, an election year and in an election year, foreign policy considerations tend to be less compelling than near-term domestic concerns.

One of the most serious problems we will face this year will be pressure within the Administration for actions aimed at short-term political gain rather than at achieving the long-term economic and foreign

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policy objectives of the United States. We have only begun to hear from some quarters that there will be a political need "to do something" for the parties at interest in several cases during this election year.

Congressmen will be on the hustings and will find it irresistible to espouse the cause of their labor and business constituents and to make promises on their behalf. While the President can discourage -- and veto -- special interest bills that Congressmen may drop in the hopper, he will himself find it harder to resist the pressures.

Moreover, the Trade Act gives the Congress important new powers to override the Executive. Thus, in escape clause cases, if the President does not follow the recommendation of the International Trade Commission, his decision can be overturned by a simple majority of both Houses of Congress. In countervailing duty cases, the Secretary of the Treasury may waive the duties under certain circumstances (as he did in 1975) but either House of Congress can by majority vote override a Treasury waiver. In an election year, the Congress will be under pressure to use its power to override.

The Tough Cases

The most serious cases we will face this year -- filed in 1975 -- are shoes and steel.

Shoes: On February 20, 1976, while you are in Latin America, the International Trade Commission will decide on the petition for import relief filed by the U.S. shoe industry. The petitioners have a strong case. Imports have increased steadily since the early 1960s, and since 1968 domestic production has declined here, total employment has dropped, and plant closings have far exceeded openings.

The principal suppliers are Italy, Spain, Taiwan, Brazil, and South Korea. All told more than thirty countries are exporters of shoes to this market. The value of the trade involved, more than \$1 billion in 1975,

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is by far the largest in any escape clause case.

The Commission is almost certain to find injury and recommend relief. The domestic industry maintains that adjustment assistance -- our preferred solution -- will not solve its problems. A positive finding by the Commission calling for tariffs or quotas will provoke an immediate adverse reaction of major proportions in the exporting countries.

Steel

The International Trade Commission on January 16, 1976, found injury to U.S. industry and recommended quotas limiting stainless and alloy tool steel imports. The President must decide by March 16 whether to support, reject, or modify the Commission's recommendations. The Congress can override a Presidential decision that differs from the recommendation of the ITC.

The value of trade involved is \$185 million; the countries affected are Japan, Sweden, Canada, France, Belgium, the UK and West Germany. They are of the unanimous opinion that the alleged difficulties of the U.S. specialty steel industry have not been caused by import competition but by the cyclical nature of the steel industry to which foreign as well as domestic producers are subject. In our view the ITC recommendation is not economically justified.

The specialty steel case cannot be looked at in isolation. U.S. Steel is intending to challenge in court the refusal by Treasury to hold that the remission by the EC of the value-added-tax on steel exports is a subsidy. (We too remit indirect taxes on our exports.) U.S. Steel may well win in the lower court. After an adverse finding in the lower court, this \$2 billion steel trade would be seriously disrupted.

Some elements of the EC steel industry are pressing for protection. The Japanese have their problems and have agreed to restrain steel exports to the EC market. It may be that the steel sector is in need of international attention.

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Conclusion

There are many more cases than these that are of lesser trade magnitude but that cumulatively could reinforce or undercut our foreign policy purposes, depending on how the President uses the leverage and discretion he has. In inter-agency councils, we hope Elliot Richardson will make the Commerce Department less protectionist. We can expect help from the Treasury in those cases that do not involve the application by them of the law (anti-dumping and countervailing duty cases require Treasury findings). In the final round with the President, Brent Scowcroft can be helpful behind the scenes. But the main burden will necessarily fall on you to defend our foreign policy interests in an election year.

Drafted By:
EB Staff
2/14/76